

# U.S. WHEAT LETTER



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## USW elects new officers



*Leonard Schock*

Montana wheat grower Leonard Schock will assume the chairmanship of U.S. Wheat Associates following the July board meeting, after receiving a unanimous vote at the USW board meeting in San Antonio. Ron Suppes, a wheat grower from Kansas, will move up from secretary-treasurer to vice chairman, and Arizonan Michael Edgar was elected as the new secretary-treasurer. Boyd Schwieder, an Idaho wheat producer, continues to serve as chairman until July, when — as past chairman — he will move over to chair the USW budget committee.

Leonard Schock is a farmer and part-time financial consultant who runs a 6,500 acre family farm corporation. Mr. Schock is past chairman of the Montana Wheat and Barley Committee, and a member of the Montana Grain Growers Association. After majoring in agronomy and ag economics at Montana State University, he has kept up on the latest innovations by taking continuing education classes in farm management and computers.



*Ron Suppes*

Ron Suppes farms about 8,000 acres. In addition to representing the Kansas Wheat Commission on the USW Board of Directors, he is also a member of the Kansas Agricultural Rural Leadership Class IV, Wheat Seminar Group, Kansas Association of Wheat Growers, National Association of Wheat Growers, Farm Bureau, National Corn Growers Association and National Grain Sorghum Producers Association.



*Michael Edgar*

Michael Edgar is the general manager of Barkley Seed, Inc. in Yuma, Arizona. The company operates facilities in Arizona and California, producing and selling certified seed of Desert Durum® wheat and hard red wheat. The company specializes in contracting production of identity preserved grain for domestic and export markets. Mr. Edgar is a member of both the Arizona Grain Research and Promotion Council and the California Wheat Commission. He is on the board of directors of WestBred, LLC and is a past president of the Seed Trade Association of Arizona.

Boyd Schwieder farms on 5500 acres in Idaho. Mr. Schwieder served on the Idaho Wheat Commission for ten years and with the Idaho Grain Producers Association for over 30 years. He was a board member of the National Association of Wheat Growers.

## USW condemns Aussie kickbacks to Iraq

*By Larry Dreiling, senior field editor, High Plains Journal. Posted ([www.hpj.com](http://www.hpj.com)) on February 5, reprinted here with permission.*

(SAN ANTONIO, Texas) — U.S. Wheat Associates meeting here Feb. 4 blasted AWB Ltd., the former Australian Wheat Board, for secret financial arrangements between AWB Ltd. and Saddam Hussein's regime, which accounted for more than 14 percent of illicit payments made to Iraq in connection with humanitarian purchases under the United Nations' Oil for Food Programme between 1999 and 2003.

In a resolution that was unanimously approved, the USWA board resolution read that "kickbacks that propped up the Saddam regime are a moral outrage, and, in most countries, a crime."

The USWA resolution urges the U.S. Congress, the State Department, the Justice Department, the Export-Import Bank and the U.S. Department of Agriculture to examine the ramifications of AWB's actions and take whatever actions are necessary to protect the integrity of U.S. market development and export programs.

The resolution also called for insisting the final agreement of the World Trade Organization Doha Round dismantles the monopoly status of AWB Ltd.

Last October, a report by the Independent Inquiry Committee into the United Nations Oil-for-Food (OFF) Programme named the

AWB as the most egregious violator of the humanitarian segment of OFF. The report explains how nearly \$222 million in OFF money was diverted through an Iraqi transportation company in Amman, Jordan, directly back to the Saddam Hussein regime.

“Folks, this is serious stuff. A wheat company was the largest source of kickbacks to Saddam Hussein’s regime under a humanitarian program,” said Alan Tracy, USW president, before a room filled with U.S. wheat producers and as many Australian reporters as American reporters. “These were kickbacks that NBC News reported could be funding insurgent attacks against our soldiers — and Australian soldiers.

“We must hold this corporation accountable for paying millions of dollars of kickbacks to Saddam Hussein at the exact time that Saddam was trying to shoot down U.S. pilots who were patrolling the no fly zones.”

Demanding corporate accountability from AWB is not, as some have suggested, an attack on an ally, Tracy told the crowd.

“The AWB is not the Australian government, nor is it a nonprofit organization made up of hardworking Aussie farmers,” Tracy said. “It is a vast independent multinational corporation that uses its monopoly control of Australian export wheat supplies to compete unfairly against American farmers.”

“I am proud that USW has stood up for American farmers — and for American values — and is actively exploring a range of possible responses to AWB’s illicit payments in a market that was closed to U.S. wheat.”

Tracy also told of investigations into AWB bribes for wheat sales to Pakistan, Yemen, Indonesia and South Africa, have led to reduced U.S. wheat exports, which in turn leads to lower U.S. prices — which costs American wheat farmers in the pocketbook and increases government support program costs.

The reported bribes to Pakistan, exposed in hearings held in Australia, may have been as much as \$12 million over a three-year period, an amount as much per year as U.S. Wheat’s entire producer-funded budget.

“How can we compete against that,” Tracy asked. “Of course, Australian farmers, who unknowingly paid the bills, buried into their wheat pool price, didn’t have any say in this matter either. This wasn’t OFF money in this case. This was their money.

“U.S. Wheat has long called for disciplines on the export monopolies. The Oil for Food travesty adds new urgency to the need for reform.”

The full text of Alan Tracy’s speech is posted on the USW website at <http://www.uswheat.org>.

## Text of the USW resolution

The USW Board of Directors unanimously adopted the following resolution, offered by Washington wheat producer Randy Suess:

WHEREAS, AWB Ltd’s (formerly the Australian Wheat Board) monopoly status has provided them a continuing ability to work outside the norms of global competition; and

WHEREAS, AWB has used its unfair advantages for decades to undercut U.S. wheat sales and hurt American farmers; and

WHEREAS, AWB now operates through a subsidiary (AWB USA) in the U.S., where monopolies are illegal; and

WHEREAS, secret financial arrangements between AWB Ltd and Saddam Hussein’s regime accounted for more than fourteen percent of illicit payments made to Iraq in connection with humanitarian purchases under the Oil for Food Programme between 1999 and 2003; and

WHEREAS, AWB officials have publicly admitted that they knew that Australian wheat contracts with Iraq contained bogus land transportation costs, “after-service fees,” and other payments which were prohibited under UN sanctions; and

WHEREAS, kickbacks that propped up the Saddam regime are a moral outrage, and, in most countries, a crime;

THEREFORE BE IT RESOLVED, that U.S. Wheat Associates condemns, in the strongest possible terms, any action antithetical to the ethical trading of wheat; and be it

FURTHER RESOLVED, that USW extends our thanks to the *Independent Inquiry Committee into the United Nations Oil-for-Food Programme*, otherwise known as the Volcker Committee, for its comprehensive report on AWB’s involvement in the Oil for Food scandal; and be it

FURTHER RESOLVED, that USW compliments the *Royal Commission into Certain Australian Companies in Relation to the UN Oil-for-Food Programme* for a thorough and effective presentation of the evidence, bringing sunshine to a dark corner of corporate misbehavior by AWB; and be it

FURTHER RESOLVED, that USW urges the U.S. Congress, the State Department, the Justice Department, the Export-Import Bank and USDA to examine the ramifications of AWB’s actions and take whatever actions are necessary to protect the integrity of U.S. market development and export programs; and be it

FINALLY RESOLVED, that USW insists that the final agreement of the World Trade Organization Doha Round dismantles the monopoly status of AWB Ltd.

## U.S. Senators urge USDA to reinstate suspension of AWB from U.S. programs

Reacting to a growing body of evidence that AWB knowingly paid kickbacks to Saddam Hussein's regime, several U.S. Senators have urged Secretary of Agriculture Mike Johanns to stop Australian participation in USDA export credit programs. In mid-November USDA suspended AWB USA from the Supplier Credit Guarantee Program, but a few days later Australian media announced that the decision was reversed after Australia's foreign minister spoke to an undersecretary at the U.S. State Department.

On January 30, U.S. Senator Tom Harkin and six other Senators urged Secretary Johanns to "reinstate the suspension of AWB USA Ltd. from the GSM export credit program until crucial questions in this matter can be fully addressed." The Harkin letter, signed by Senators Patty Murray (D-WA), Ken Salazar (D-CO), Max Baucus (D-MT), Kent Conrad (D-ND), Byron Dorgan (D-ND) and Timothy Johnson (D-SD), also pointedly asked Mr. Johanns if it is "appropriate for a company run by and for the benefit of Australian farmers to participate in a USDA program intended to facilitate export sales by American farmers and agricultural businesses?"

In a separate letter sent to Secretary Johanns on January 31, U.S. Senator Norm Coleman (R-MN) was emphatic on the issue.

"I believe the Department should continue to enforce the suspension of AWB USA Ltd. from the export credit program as an avalanche of evidence has emerged that AWB was violating U.N. sanctions and financing the Hussein regime to tune of hundreds of millions of dollars," Senator Coleman wrote. "Therefore, until AWB is completely exonerated, I urge you to ensure AWB does not take part in the export credit program."

### Australian leader says OFF used for weapons

"The oil-for-food program has been immorally and shamefully rorted by Saddam Hussein, who has used the proceeds of it to acquire his weapons capacity and support it."

— Australian Prime Minister John Howard, March 27, 2003.

(Note to American readers: "Rorted" is an English/Aussie slang term meaning "to commit fraud.")

## New Canadian leader does not support CWB monopoly

There is a new political dynamic in Canada. On January 23 Canadians replaced the governing Liberal Party with a Conservative Party of Canada minority government. The Conservatives, led by the new Prime Minister Stephen Harper, have not supported the single desk status of the Canadian Wheat Board.

Despite their electoral victory, the Conservatives cannot move immediately to dismantle the monopoly. Without a majority in the Parliament, they need third party support and that may be difficult to obtain on this issue. Nevertheless, there are reasons to expect some changes in the government approach to the CWB, some Canadian observers point out, especially since the Conservative Party won all the seats in the wheat growing areas that are controlled by the Canadian Wheat Board monopoly. With Mr. Harper's election platform calling for the removal of the CWB's single desk authority, his government will be hard pressed not to pursue changes.

With the AWB mess in Australia, and a new Canadian attitude towards the CWB, the stars may be aligning for progress through ongoing WTO negotiations.

The U.S. and the EU are demanding an end to exporting monopolies, and Canada's trade negotiators may have a different set of instructions from the Conservative Government than they had in previous negotiations. Given the election promises, it is difficult to imagine Mr. Harper instructing his negotiators to preserve the Canadian Wheat Board monopoly status at all costs, so Canada may very well concede the monopoly status of the CWB. Of course, the Canadians will want something in return, and analysts wonder if they are seriously considering the U.S. WTO proposal, offered in October, to make meaningful changes to American farm programs.

## Recent ocean freight price movement gives advantage to U.S. exports

by Joe Sowers, USW market analyst

World trade flows have caused an unusual situation in recent weeks. Ocean freight rates from North American origins have fallen on the order of 15 - 40 percent, while rates from exporters in the Southern Hemisphere have climbed by as much as 19 percent. The swing in freight costs favors U.S. wheat export prices over southern competitors by as much as \$13 per metric ton (MT).

Global ocean freight rates have moderated considerably over the past 14 months. In December 2004 the Baltic Dry Index (BDI), a



composite of ocean freight rates on international routes, reached a record 6208 points. Since then it has fallen to 2202, a 68 percent decline. The BDI fell 35 percent just since November 2005.

Reports by the International Grains Council clearly show the divergent movement of grain freight rates. For shipments to the Persian Gulf, rates from the St. Lawrence Seaway declined from \$46/MT in November 2005 to \$40/MT in January 2006, while rates from Australia rose from \$29 to \$32/MT. For shipments to Egypt, rates from the U.S. Gulf fell from \$36 to \$28/MT while climbing \$1 for wheat exported from Australia to \$34/MT. For China, rates from the U.S. Gulf fell by \$8/MT while rising from Australia by \$3/MMT.

The primary reason for the diverging price movement is the large number of vessels needed to supply the U.S. import market, which results in additional empty vessels available to export cargo. Meanwhile, wheat exporters in the Southern Hemisphere must compete for vessel space with various raw materials, such as mining products and coal, requiring significant export vessel capacity. Australia is a leading exporter coal, petroleum and metal ores while Brazil is the largest iron ore exporter in the world.

USDA's Agricultural Marketing Service points out, in a report posted at [www.ams.usda.gov/tmdtsb/grain/2006/02-02-06.pdf](http://www.ams.usda.gov/tmdtsb/grain/2006/02-02-06.pdf), that although wheat shipments from the U.S. were up in the fourth quarter of 2005, overall grain shipments were lower than last year. This is due to extremely strong soybean exports by South American competitors.

Trade sources believe that dry bulk shipping rates have likely bottomed out and will begin to rebound in the near term. As rates rise, trade sources believe the U.S. could maintain some of the freight cost advantage gained since November.

## **Southern Plains HRW growing conditions worrisome**

Continued abnormally dry weather led to continued drought over the southern Plains, and the drought may be extending through the central Plains to Nebraska. State reports are available on the web at <http://usda.mannlib.cornell.edu/reports/waobr/weather/2006/>. Here are excerpts from this week's state agricultural reports:

Ninety-seven percent of Oklahoma reported topsoil moisture as very short to short last week, leaving only 3 percent of the state reporting adequate moisture conditions. Dry weather continued to take its toll on small grains. The lack of moisture had caused wheat in some areas to turn brown in color. Green bugs were increasing in the West Central and Southwest districts and producers were beginning to spray. Just over half of the wheat was in very poor to poor condition.

In Texas, abandonment of earlier planted fields continued in some areas as the crop was considered beyond the point of recovery. In areas where recent showers have occurred, some green up and emergence of small grains occurred, however more moisture is needed to continue the improvement. Statewide, wheat condition was rated mostly poor to very poor.

Kansas experienced above normal temperatures most of January. Precipitation was very light throughout the state for the month with the exception of a few counties in the southeast. Dry weather and mild temperatures are a concern throughout the state. Topsoil moisture was rated 23 percent very short, 49 percent short, and 28 percent adequate. Wheat condition is rated 3 percent very poor, 10 percent poor, 35 percent fair, 46 percent good, and 6 percent excellent.

Nebraska reports that January's unseasonably warm temperatures of 10-15 degrees above normal challenged record highs set in 1933. Since September 1, accumulated precipitation is below normal for all areas of the state except the northeast. Wheat conditions were below month ago levels and rated 1 percent very poor, 6 poor, 41 fair, 50 good, and 2 excellent. This is also below last year's condition of 56 percent good or excellent.

## **India to import wheat**

India, the world's third biggest wheat producer, plans to import 500,000 metric tons of wheat this year. Minister Sharad Pawar said the imports are necessary to increase the stock in the central pool and to contain rising market prices. The minister added that he would review the situation in May before taking further measures. India last imported wheat in 1999. Imports during the latter part of the 1990s were mostly from Canada, Australia and Argentina.

## **Correction**

The last Wheat Letter, in the article "Ukraine wheat crop falters," misstated Ukraine's winter wheat acreage. The acreage has been reduced by 18.7 percent (1.18 million hectares), from 6.32 million hectares last year to 5.14 million hectares this year.